A New Kind of Old Folks' Home

By Kerry Pechter *Thu, Feb 6, 2020*

For retirees who want a bundled (but not too restrictive) solution to their future housing and medical needs, a Type-C Continuing Care Retirement Community is an option. RIJ looked into the costs.

Entering retirement as frisky 60-somethings with exotic travel on their minds, most affluent baby boomers don't think about the decades ahead, when they might not be able to button their own collars, cook their own meals or ambulate without a walker.

But if you're advising older people on their finances, you know that many of your clients will eventually need a home health aide, assisted living services, or long-term nursing home care. Preparation for such expenses always beats procrastination.

As a fiduciary and a fee-based or fee-only planner, you may also feel obligated to talk to clients about Medicare, supplemental health plans, or the five kinds of Continuing Care Retirement Communities (CCRCs)—even if you don't bill explicitly for doing so. For the elderly, health care decisions are financial decisions. The costs of treating injury or chronic illness, which may surpass $10,000 a month, can throw a family into turmoil, lead to panicky decisions, and decimate a family's accumulated wealth if not properly anticipated.

In an occasional series of articles in *RIJ*, we'll review the pros and cons of the various solutions to the long-term care dilemma. This week we'll look at one CCRC, a "fee-for-service" facility where near-retirees can prepare for their long-term housing and medical care needs, instead of waiting until a broken bone or a loss of mental sharpness precipitates a crisis decades from now.

"Ann's Choice" is a sprawling 1,600-unit apartment, assisted living and nursing home complex in Warminster, a suburb north of Philadelphia. It was built in 2002 on the site of an 18th century farm owned by Quakers Bartholomew Longstreth and his bride, Ann Dawson—the facility's namesake. The stone houses, fields, woods, and unpaved turnpikes of the colonial era are now a matrix of condominiums, mini-malls and four-lane boulevards.

"Ann's Choice," Warminster, PA

"It's almost like living on a cruise ship," said Ryan Doherty, a sales counselor who leads tours of Ann's Choice for prospective tenants, in describing daily life in the 103-acre complex. "People will get up, get dressed and leave their apartments in the morning, and sometimes not come home until the evening."

On a recent Monday, Doherty was guiding a tour of "Keystone Clubhouse," one of four multi-use buildings linked by sky-bridges to 17 multi-story apartment buildings. He led the way past administrative offices, a roomful of women learning bridge, a music room, a clubroom with wing chairs, and a large meeting room "where people can fly their drones if they want to," Doherty said.

Crossing a sky-bridge to one of the residential buildings, Doherty led the way down a carpeted hall where niches of family pictures personalized some of the apartment entrances. By one door were 1970s-era framed photos of a statuesque, auburn-haired woman in the satin bodice and mesh stockings of a men's club hostess, posing with entertainer Sammy Davis, Jr., and boxer Muhammad Ali.

Like a real estate agent, Doherty showed a visitor the "Fairmont," the "Hastings" and the "Brighton" sample apartments. All are designed for independent living couples or singles. Each has a kitchen and one or one-and-a-half baths. At 701 square feet, the single bedroom Brighton was the smallest. The other two, at about 1,000 square feet, had two bedrooms. Residents furnish their own units. There are move-in services. Pets are OK; smoking isn't.

Ann's Choice residents might remain in the independent living section for the rest of their lives, receiving visits as needed from a housekeeper, health aide, nurse, emergency medical technician or doctor. Many, however, will need help with "activities of daily living" or round-the-clock attention, and will have to move to an assisted living studio apartment or room, to the nursing care area, to the "Memory Care" facility for Alzheimer's patients, or temporarily to a nearby hospital.

All of the residents have Medicare coverage and a supplemental plan. Ann's Choice is one of 20 **Erickson Living Network of Communities**, whose 27,000 residents nationwide must enroll in the Erickson Medicare Advantage HMO unless they have their own Medi-gap policy. Residents who arrive with long-term care insurance coverage are encouraged to keep it.

Paying for it

As a "Type C" CCRC, Ann's Choice follows a fee-for-service or a la carte expense model.

(See box.) It requires an upfront investment in an apartment and a demonstration of enough financial assets to cover future care. Residents who meet the entrance requirements have a near-guarantee of lifelong care.

Ann's Choice's costs are geared to match the financial resources of mass-affluent or middle-class couples. Most residents come from the surrounding suburbs and are downsizing from single-family homes. Doherty said many have assets of about $500,000, half of it in home equity and half in invested assets.

"We have tradesmen and we have white-collar people," he told *RIJ*. "And the most expensive apartments are located alongside the least expensive apartments."

The process starts with a $1,000 fee that secures a place on Ann's Choice's waiting list. During the waiting period, applicants can access the fitness facilities and restaurants; they want you to get acclimated. Then there's the purchase of an apartment and a monthly service plan.

The most expensive apartment at Ann's Choice is a "luxury two-bedroom, two-bath unit with a sunroom/den" for between $476,000 and $636,000. The least expensive is a studio apartment for between $117,000 and $153,000. The ranges indicate differences in locations and features such as balconies, patios or bay windows.

The down payment is 90% refundable to departing residents or their heirs, unless the resident has drawn on its value to pay for services. This is characteristic of Type-C CCRCs, which differ in their treatment of lodging expenses from Type A (irrevocable down payment) and others (partial reimbursement, monthly rental, personal ownership of a purchased unit).

The deposit works a bit like a hybrid fixed annuity with a long-term care rider. That is, the value of the annuity serves as a deductible for the long-term care insurance, and is tapped only if long-term care is needed. If a resident leaves Ann's Choice, he or she may not get the 90% back immediately, but may have to wait until Ann's Choice receives fresh funds from a new entrant. That may pose a potential risk factor for residents, but Doherty said Ann's Choice has a current occupancy rate of 99%. Giving the rising number of retirees in the U.S., filling apartments probably won't be difficult.

Each style of apartment comes with a corresponding monthly service fee ranging from $2,018 to $3,186 per month. That's for one person; a spouse or second person costs an additional $897 per month. Monthly fees inflate by 3.5% every year, thus doubling in 20 years, even without an increase in level of care.

The service fee includes the cost of utilities (except telecom), exterior maintenance, and property taxes, along with 30 restaurant meals per month, on-call emergency responders, fitness club membership, and dozens of club activities ranging from bocce to mah jongg to poker to politics.

Incidentals and options like parking spots, visitor meals and lodging, housekeeping and wheelchair rental have separate fees. If a couple goes to Florida for three months in the winter, they get a $36-a-day reduction in their monthly service fee.With 1,600 units, Ann's Choice is three to five times the size of most CCRCs, so its residents enjoy economies of scale.

Once someone moves to one of the assisted living, skilled nursing, or memory care units in the "continuing care" center, the monthly fees can rise to $6,000 a month or even as high as $14,000 a month, Doherty told *RIJ*. Again, a Type-A or Type-B CCRC would involve the pre-payment of some or all of those expenses, but a fee-for-service Type-C CCRC like Ann's Choice doesn't.

Types of Continuing Care Retirement Communities

Type-A (Extensive or Life-Care): All else being equal, a Type A CCRC requires the highest monthly fee for independent living, and possibly even a higher entry fee. But almost all services—including assisted living or skilled nursing care--are provided with little or no increase in monthly fees, other than inflationary adjustments.

Type B (Modified): Type B contracts usually require lower monthly fees than Type A contracts, and possibly lower entry fees. If assisted-living or skilled nursing care is required, the resident pays some of the cost. Often the resident is allotted a pre-defined number of days in the health care center at no cost. Healthcare services may be offered at a discounted rate.

Type C (Fee-for-Service): These are fee-for-service (a la carte) contracts, with lower initial monthly fees and possibly lower entry fees than Types A or B. If assisted living or skilled nursing care is required, the resident's monthly fee will increase to reflect the market rate for care.

Rental: Rental contracts require no entry fee or perhaps a nominal "community fee." Contracts are often month-to-month and service fee may be higher than what you would pay in a comparable entry-fee community since no money is collected up-front. Residents may have priority access but not necessarily guaranteed access to the healthcare facility.

Equity/Co-Op: An equity contract involves the actual purchase of real estate or ownership in a co-op instead of an entry-fee. A monthly service fee will still be required. Health care is generally available at the on a fee-for-service basis at the full market rate or at a slight discount.

Pros and cons

Doherty said that many people who apply for entrance to Ann's Choice bring their financial advisers to the meeting. There are no loans involved, but Ann's Choice wants to know upfront if an applicant's resources—a combination of investments, long-term care insurance, pensions, Social Security benefits—will be enough to pay whatever expenses arise in the future.

That said, a certain number of beds at Ann's Choice are reserved for Medicaid patients. According to Doherty, few or no long-term residents are forced to leave for inability to pay; the facility has a "benevolent fund" to help out. Residents are contractually obligated not to give their money away to children or charity after they get in.

The best candidates for a Type-C CCRC like Ann's Choice will clearly be people who like to plan ahead, who want the ease of condo living, and who like the idea of a bundled solution to their future medical needs. They will have embraced the concept that their home equity will be spent on long-term care or go to heirs, as the situation requires or allows.

Financial advisers should be aware that the management or disposal of the resident's "outside" assets is subject to a subtle restriction. According to the Ann's Choice **contract**, the resident may not "divest yourself of, to sell, or transfer any assets or property interests (excluding expenditures for your normal living expenses) that reduces the assets that you or your representative disclosed as available assets for you on admission, without having first obtained our written consent."

That doesn't mean that Ann's Choice tries to monitor its residents' finances. "If you were to exhaust your assets and want to spend down the entrance deposit you had put down upon making the move to Ann's Choice, we would perform an audit to ensure that the money was spent in an honest fashion," Doherty said.

As an adviser, you would hope that no client of yours would leap into a Type-C CCRC commitment before letting you or an attorney review the contract. But Doherty pointed out that it's more common for people to wait too long to apply for entrance to Ann's Choice than to act too hastily.

Members of the Silent Generation (born pre-1946) are apparently famous for balking at the idea of moving to a "home" and losing independence. Many Boomers will undoubtedly feel the same way. "It's a hard pill for some people to swallow," Doherty said. But if they wait until they need assisted living services, or if they've already spent down too much of their savings, they may not qualify for admission.

As an adviser, the more you know about the financial aspects of downsizing from a family home to a CCRC, the better you can help your clients make this complicated transition efficiently.